



## Testimony

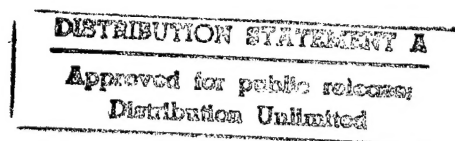
Before the Committee on the Budget, United States Senate

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# INTERNATIONAL AFFAIRS BUDGET

## Framework for Assessing Relevance, Priority, and Efficiency

Statement of Benjamin F. Nelson, Director, International  
Relations and Trade Issues, National Security and  
International Affairs Division



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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the programs and activities funded by the international affairs budget—the “function 150” account of the federal budget. As you requested, my goal today is to help set the stage for a thoughtful examination of the issues that should be raised in assessing the current programs and activities on the books that support U.S. foreign policy and economic objectives. To date, no one has undertaken such a comprehensive review of 150 account activities. This examination appears to be warranted in light of the dramatically changed world environment and new budget realities and increased demand for accountability for results. GAO’s 1996 symposium involving leading academics and practitioners in the area of international affairs evidenced the broad and significant changes that are taking place in the world in terms of governance, finance, economics, and political-military affairs. I will establish the context for my statement and provide an overview of six categories into which we have placed the international affairs programs. Then I will outline a framework for assessing these activities and their funding. And finally, I will discuss some of the critical issues and questions that should be examined in each of our six categories.

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## Summary

It has become almost a cliché to talk about the end of the Cold War and its impact on U.S. foreign policy objectives, goals, and priorities. Clearly, this watershed event and its aftermath have changed the nature of U.S. international interests and priorities. We now face the challenges involved in North Atlantic Treaty Organization (NATO) expansion, assisting the transition of former communist countries, integrating China into the world economic system, reforming the United Nations and the World Bank, building a credible World Trade Organization, and attacking the menace of illegal drugs and AIDS. These events necessitate a careful rethinking of the programs, approaches, and activities at the U.S. government’s disposal to advance its interests. Post-Cold War complexities make such a task extremely difficult, particularly in view of the transnational, and seemingly intractable, nature of some of the present challenges. At the same time, the current environment also affords the chance to reassess programs and activities on their merits and determine if they are relevant in today’s world.

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Funding in the 150 account, which totalled \$18.1 billion<sup>1</sup> in fiscal year 1997, constitutes only 1 percent of the federal budget and just 3 to 4 percent of discretionary funding. Nonetheless, these expenditures fund activities that are designed to influence world political and economic agendas. To support its interests in such agendas, the U.S. government maintains a worldwide infrastructure of embassies, missions, consulates, and trade offices, with an overseas staff of more than 35,000. The 150 account funds a wide range of programs and activities—upwards of 70 separate line items ranging from food aid to antiterrorism assistance, to U.S. contributions to multilateral financial institutions, to financing by the U.S. Export-Import Bank (Eximbank). A large percentage of funds in the account is directed by Congress or the President for specific countries and purposes, such as child survival and population programs.

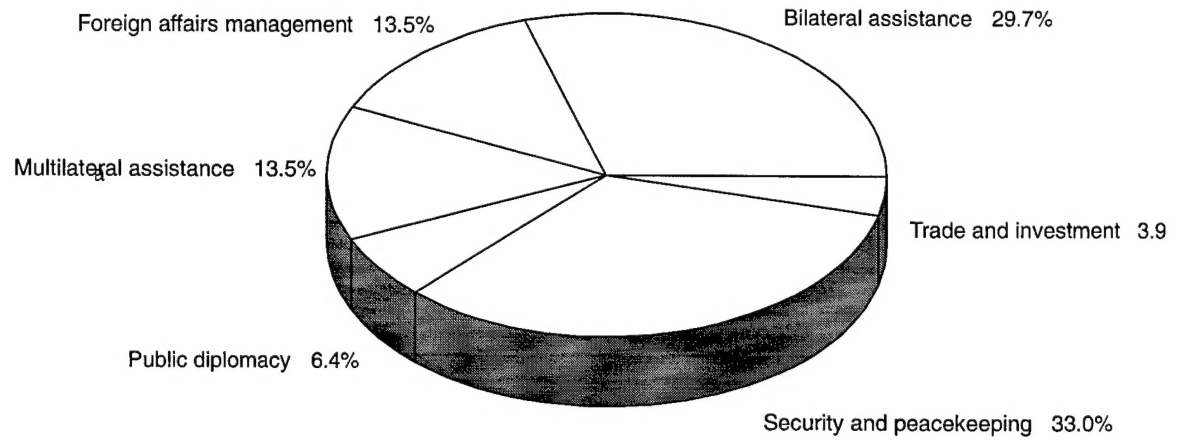
#### Overview of International Affairs Programs and Funding

To facilitate the examination of 150 account funding, we have grouped these various programs and activities into six categories (see fig. 1).

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<sup>1</sup>Dollar figures cited in this statement represent Office of Management and Budget (OMB) budget authority data in fiscal year 1997 dollars, unless otherwise noted.

**Figure 1: Distribution of 150 Account Funding for International Affairs Programs, Fiscal Years 1992-97**





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- Security and peacekeeping operations. This category includes funds to support international peacekeeping efforts, foreign military financing, and budget and economic assistance to countries critical to U.S. political and security objectives.<sup>2</sup> Between fiscal years 1992 and 1997, this component has represented 33 percent of total 150 account funding.<sup>3</sup> Funding for security and peacekeeping has decreased in real terms by an average of about 6 percent per year to its 1997 level of \$6.3 billion.
  - Bilateral assistance. This category includes development assistance, assistance to economies in transition, humanitarian aid, and the operating expenses of the U.S. Agency for International Development (USAID). During the last 5 years, this component has represented about 30 percent of total 150 account funding. Funding for bilateral assistance has decreased in real terms by an average of about 6 percent per year to its 1997 level of \$5.2 billion.
  - Foreign affairs management. This category essentially funds the domestic and overseas operations of the State Department for conducting foreign relations, including coordinating and supporting various U.S. programs and activities overseas. The State Department is the U.S. government's overseas landlord, providing space, equipment, and communications for most agencies operating abroad, including the growing cadre of nondiplomatic staff. Over the past 5 years, the Foreign Affairs Management component has represented almost 14 percent of total 150 account funding. Funding for foreign affairs management has decreased in real terms by an average of about 4 percent per year to its 1997 level of \$2.6 billion.
  - Public diplomacy. This category comprises the domestic and overseas operations and cultural and educational exchange programs of the U.S. Information Agency (USIA). The USIA's mission is to explain and advocate U.S. policy to foreign publics, provide them with information about the United States, and advise U.S. decisionmakers on foreign public opinion and its implications for the United States. During the last 5 years, this component has represented about 6 percent of total 150 account funding. Funding for public diplomacy has decreased in real terms by an average of about 6 percent per year to its 1997 level of \$1.1 billion.
  - Multilateral assistance. This category consists of funding for the United Nations (U.N.) agencies and for multilateral financial institutions such as the World Bank. During the last 5 years, this component has represented almost 14 percent of total 150 account funding. Funding to support U.S. participation in multilateral institutions has decreased in real terms by an average of about 6 percent per year to its 1997 level of \$2.2 billion.

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<sup>2</sup>This assistance is provided through the Economic Support Fund.

<sup>3</sup>Throughout this statement, the term "funding" refers to discretionary budget authority.

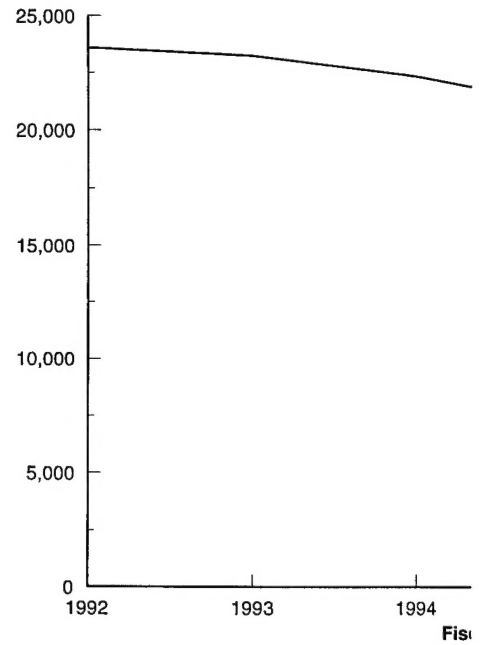
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- **Trade and investment.** This category principally includes the activities of the Overseas Private Investment Corporation (OPIC), the Eximbank, and the Trade Development Agency. This component has represented almost 4 percent of total 150 account funding during the last 5 years. Funding for trade and investment has decreased in real terms by an average of 4 percent per year to its 1997 level of about \$700 million.

Between fiscal years 1992 and 1997, funding for the international affairs account has declined in real terms an average of about 6 percent annually. Funding in fiscal year 1997 was about \$18.1 billion—23 percent lower than it was in 1992 (see fig. 2). Under the recently concluded budget agreement, international affairs funding was designated a priority and set at a level of \$19 billion for fiscal year 1998 (excluding payment of U.S. arrears to the United Nations and other multilateral organizations and development banks).<sup>4</sup> The 150 account is slated to experience cuts of over 13 percent in real terms by the year 2002.

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<sup>4</sup>See H.R. Conf. Rep. 105-116, at 58 (1997) for 150 account discretionary totals (fiscal years 1997-2002) in 1998 Budget Resolution.

**Figure 2: Trends in 150 Account  
Funding for International Affairs  
Programs, Fiscal Years 1992-97**



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Note: In millions of 1997 dollars.

A large portion of the funds in the international affairs account supports foreign policy and national security imperatives, which limits budget options. Of the \$19.5 billion<sup>5</sup> the executive branch sought in fiscal year 1998, fully one-third, or \$6.4 billion, is devoted to supporting international security objectives, including security assistance to Egypt and Israel and U.S. peacekeeping contributions.

One of the more significant developments in the U.S. foreign aid program is the participation of new recipients—the countries of Eastern Europe and the former Soviet Union. Aid to these countries accounts for 18 percent of all assistance since 1992 and is consuming a greater share of a decreasing aid pie—from 8 percent of bilateral assistance in 1992 to 20 percent in 1997. Aid for these countries includes grants for training and technical assistance to facilitate development of democratic institutions and market economies. Assistance to Bosnia is now the single largest program of U.S. aid in this region—\$240 million in fiscal year 1997. Of course, this does not include \$2.5 billion in incremental costs for military-related operations.

Another noteworthy observation, we believe, is the amount of aid that has gone to alleviate problems associated with localized conflicts—“hot spots” such as Somalia, Bosnia, and Haiti. Since 1993, more than \$1 billion has been spent on such conflicts, including funds for humanitarian assistance and food aid. Typically, USAID has been required to meet part of these requirements by shifting funds from other ongoing bilateral assistance programs.

Only a portion of total international affairs activities is funded through the 150 account. We have identified at least \$7.6 billion outside the 150 account that seem to support internationally related initiatives and programs. A list of these activities and their funding levels are attached to my written statement (see the appendix). Neither the activities of the Commerce Department’s International Trade Administration, including its overseas offices, nor the Foreign Agricultural Service’s trade promotion programs and overseas offices, nor the Defense Department’s security-related assistance programs in former communist countries are

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<sup>5</sup>This excludes \$3.5 billion in requested budget authority for the International Monetary Fund’s New Arrangements to Borrow, an activity that does not result in an outlay of U.S. funds or increase the deficit.

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funded under the 150 account. These are just a few of the more visible activities I can mention. Coming to an accurate understanding of just how much money goes to international activities outside the 150 account is difficult because of (1) the absence of broadly accepted criteria about what constitutes a foreign affairs program or activity; (2) the lack of transparency over the full range of international affairs-related activities and programs managed by U.S. government agencies—that is, budget line item descriptions do not clearly link to international programs or activities; and (3) the interrelatedness of domestic and international activities. As I discuss funding for specific categories of the 150 account later in this statement, I will, where possible, also highlight examples of complementary funding outside the 150 account.

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## How to Assess International Programs and Funding

In assessing 150 account activities, I would like to suggest using the following analytical framework or series of questions: First, how relevant are current programs and activities in today's world? Second, how high a priority do they deserve? And third, can those that meet these first two tests be done more efficiently and effectively?

By relevance, I mean whether there have been changes in the underlying assumptions or conditions that led to funding a program in the first place. If a program does meet the relevance test, the Congress and the President must also question how important it is relative to other programs from a cost/benefit standpoint. Finally, the efficiency questions: Can program goals be achieved more efficiently by taking advantage of technology improvements or best practices?

The 150 account covers a wide range of activities. Because the range is so broad, it is important that a regular reexamination of the results of each program occurs to assess whether the program is successful. None of this is easy. The Government Performance and Results Act process, with its emphasis on setting priority and measuring outcomes, should help in this regard.<sup>6</sup>

GAO has completed a broad range of work related to efficiency and effectiveness of international programs. This work, as well as recent studies by other well-respected organizations, has identified opportunities

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<sup>6</sup>The Government Performance and Results Act of 1993, also known as the Results Act or GPRA, is the primary legislative framework through which agencies will be required to set strategic goals, measure performance, and report on the degree to which goals were met. The act requires agencies to eventually develop and submit strategic plans, annual performance plans, and annual report on program performance.

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to reengineer foreign affairs structures and functions to eliminate overlap and duplication and to bring them in line with best practices. For example, a recent, widely distributed Council on Foreign Relations/Brookings Institution study, which recommended additional funding for foreign affairs, also suggested that over \$1 billion could be saved through such efforts.

The Congress and the executive branch are best suited to address the issues of relevance and priority I have raised. The suggested framework, I believe, is an appropriate starting point.

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## Critical Issues and Questions

With this framework in mind, I will now return to the six categories of the foreign affairs budget that I established earlier. I will note funding levels and trends for activities in each category and then discuss the particular set of issues and questions that could be raised with respect to relevance, priority, and efficiency.

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## Security and Peacekeeping Operations

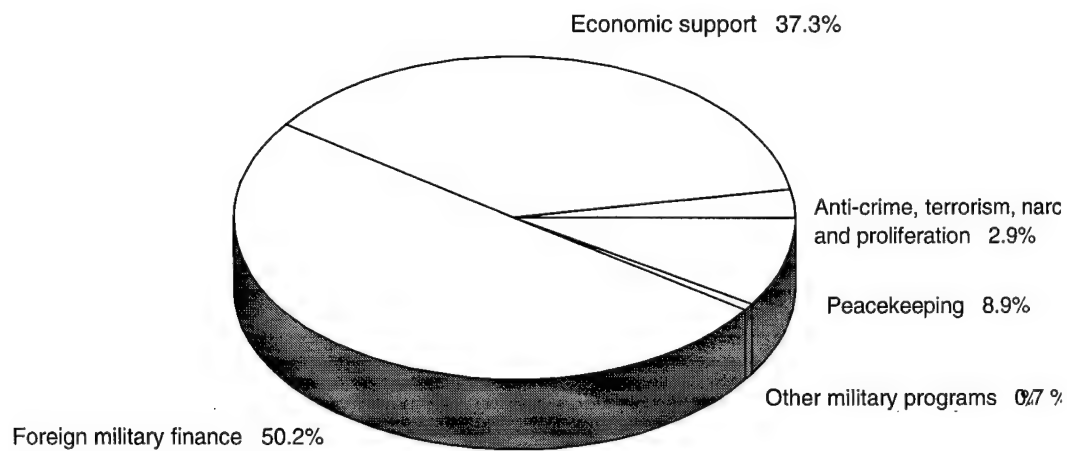
Security and peacekeeping activities represented 33 percent of the international affairs' fiscal years 1992-97 budget—the single largest component of this account. Foreign military financing programs<sup>7</sup> consumed the largest portion of this component—about 50 percent—followed by about 37 percent for economic support provided primarily to Israel and Egypt (Economic Support Fund); about 9 percent for multilateral peacekeeping operations; and about 3 percent for programs to provide training and equipment to foreign governments to combat crime, illegal narcotics, terrorism, and nuclear proliferation<sup>8</sup> (see fig. 3).

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<sup>7</sup>These programs provide grants, loans, and loan guaranties to foreign governments to purchase U.S. military equipment.

<sup>8</sup>Totals may not add due to rounding.

**Figure 3: Distribution of Security and Peacekeeping Funding, Fiscal Years 1992-97**



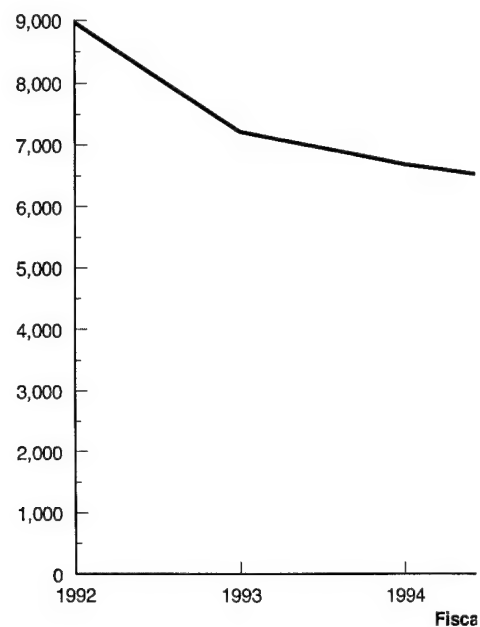
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Note: Totals may not add due to rounding.

Funding for the security and peacekeeping component of the international affairs budget has declined in real terms an average of about 6 percent during fiscal years 1992-97. The funding level for fiscal year 1997 of \$6.3 billion is almost 30 percent lower than in fiscal year 1992 (see fig. 4), with the most significant reductions occurring in the Economic Support Fund. This fund has been cut by over 33 percent, while foreign military financing programs have shrunk by about 26 percent. Funding levels for assistance to Israel and Egypt, the largest recipients, have remained relatively constant during this period. The executive branch has proposed a further real decrease of about 1 percent in funding for this component in fiscal year 1998.



**Figure 4: Trends in Security and  
Peacekeeping Funding, Fiscal Years  
1992-97**



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Note: In millions of 1997 dollars.

Trends in funding for this category have reflected shifting U.S. priorities to some extent, but a large core of this component serves fundamental security interests that have not changed significantly in many years.

- Are there opportunities to reduce security-related costs?

As of fiscal year 1997, support for long-standing commitments to achieve lasting peace in the Middle East through financial assistance to Israel and Egypt represents 85 percent of the security-related costs. This includes Economic Support Fund grants and foreign military financing. The Economic Support Fund was established to allow the United States to promote economic and political stability in areas where the United States has special security interests. It has been justified to the Congress on the basis of its role in (1) strengthening the security of friendly and allied countries and (2) benefiting the U.S. economy because funds are generally spent on U.S. goods, services, and training. Since 1992, the Economic Support Fund has been reduced by about one-third, with aid to countries outside of the Middle East absorbing nearly all of these cuts. Decreases in foreign military financing to specific countries outside the Middle East have resulted from the end of the Cold War and the decline in regional conflicts, primarily in Central America. Currently, the vast majority of foreign military financing is devoted to Israel and Egypt, with most of the remainder supporting partners in Central and Eastern Europe and the Newly Independent States (NIS) of the former Soviet Union,<sup>9</sup> Greece, and Turkey. Further cuts in these security-related components of the budget would appear to be difficult without a major change to the U.S. policies supporting the Middle East peace process and European security.

- Are there opportunities to reduce peacekeeping costs?

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<sup>9</sup>Significant security-related assistance being provided to the countries of Central and Eastern Europe and the former Soviet Union is not included in the international affairs programs account. For example, much of the U.S. funding for the Partnership for Peace program is included in the Department of Defense budget request. Defense has programmed at least \$160 million to help former Soviet republics or former members of the now-defunct Warsaw Pact, including funding for development of regional air traffic control systems, support for joint military exercises, and exchanges of information concerning methodologies to manage defense resources. Defense has also programmed about \$1.9 billion to help Russia, Ukraine, Belarus, and Kazakhstan reduce and control weapons of mass destruction under the Cooperative Threat Reduction Program, generally referred to as the Nunn-Lugar program.

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The United States currently contributes 25 percent of the costs of U.N. peacekeeping operations and also supports, on a voluntary basis, peacekeeping activities by other multinational organizations in Africa, Latin America and the Caribbean, Europe, and the Middle East.

Considerable attention has been focused on the cost and effectiveness of high-profile U.N. peacekeeping operations such as those in Bosnia, Haiti, and Somalia. Less attention has been devoted to the costs and effectiveness of long-standing but less visible U.N. peace missions, such as those in India/Pakistan, Cyprus, and Angola. These eight long-standing missions cost the United States about \$148 million annually, have been in existence from 6 to nearly 50 years, and so far have cost over \$6 billion. They have evolved into open-ended commitments; diplomatic efforts to resolve the underlying conflicts have stalled in nearly all of the operations, and the situations have proven intractable. We recently recommended that the Secretary of State develop plans and strategies to bring these missions to closure.<sup>10</sup> I want to emphasize that we do not mean these missions should be ended immediately, but rather that concrete actions to address the underlying conflicts should be developed. Success along these lines could have budgetary implications, given the cost of these operations.

Funding in the 150 account by no means represents the sum total of U.S. contributions to peacekeeping activities or U.S. support for international security interests. From fiscal years 1992 through 1995, U.S. government agencies spent over \$6.6 billion to support U.N. peace operations in Haiti, the former Yugoslavia, Rwanda, and Somalia; this figure includes \$3.4 billion in incremental costs incurred by the Department of Defense and funded outside of the 150 account.

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## Bilateral Assistance

Between fiscal years 1992 and 1997, about 30 percent of the international affairs budget was spent on bilateral assistance programs. During this period

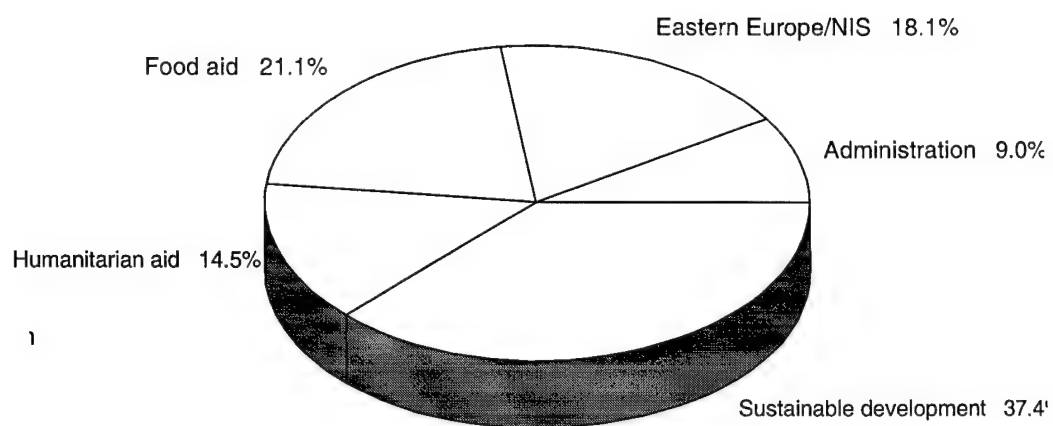
- about 37 percent supported traditional development programs administered primarily by USAID;
- about 21 percent funded food aid programs;
- about 18 percent was allocated for aid to Eastern Europe and the NIS;
- about 15 percent went for humanitarian aid, such as disaster relief; and

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<sup>10</sup>U.N. Peacekeeping: Status of Long-standing Operations and U.S. Interests in Supporting Them (GAO/NSIAD-97-59, Apr. 9, 1997).

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- about 9 percent funded USAID's administrative costs (see fig. 5).

**Figure 5: Distribution of Bilateral Assistance Funding, Fiscal Years 1992-97**

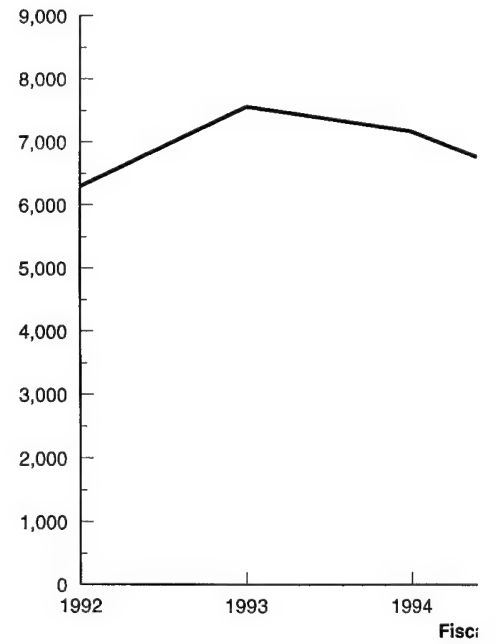


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Note: Totals may not add due to rounding.

Funding for the bilateral assistance component has declined in real terms an average of 6 percent per year during fiscal years 1992-97 (see fig. 6). It peaked in fiscal year 1993, but by fiscal year 1997 had returned to about \$5.2 billion—a level 17 percent lower than in fiscal year 1992. The President has requested an increase of about 5 percent in funding for this component for fiscal year 1998.

**Figure 6: Trends in Bilateral Assistance Funding, Fiscal Years 1992-97**



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Note: In millions of 1997 dollars.

One of the more significant developments in the U.S. foreign aid program is the participation of new recipients—the countries of Eastern Europe and the former Soviet Union. Aid to these countries accounts for 18 percent of all assistance since 1992 and is consuming a greater share of a decreasing aid pie—from 8 percent of bilateral assistance in 1992 to 20 percent in 1997. Aid for these countries includes grants for training and technical assistance to facilitate development of democratic institutions and market economies. Assistance to Bosnia is now the single largest program of U.S. aid in this region—about \$240 million in fiscal year 1997.

Also of note is the amount of aid that has gone to alleviate problems associated with localized conflicts—“hot spots” such as Somalia, Bosnia, and Haiti. Since 1993, more than \$1 billion has been spent on these three conflicts, including funds for humanitarian assistance and food aid. Typically, USAID has had to meet part of these requirements by shifting funds from other ongoing bilateral assistance programs.

The one-third of bilateral assistance that supports sustainable development efforts includes programs in health and population growth, economic growth and agricultural development, democracy, education and training, and the environment. As I said earlier, a large percentage of sustainable development funding is directed by the Congress or the President for specific purposes, such as child survival and population programs. In 1997, about 70 percent of sustainable development assistance was earmarked or directed in this way, up from about 60 percent in 1995.

The central issues surrounding bilateral assistance are, first, whether economic development assistance either has had or can have a positive impact on development and, second, how efficiently and effectively can aid be delivered.

- How relevant are our foreign aid programs in the current environment?

Despite USAID's attempt to better target its assistance, fundamental questions remain about the effectiveness and relevance of U.S. development assistance for purposes other than humanitarian relief. Critics of foreign aid point to the end of Cold War imperatives, the absence of conclusive evidence that aid makes a difference to countries' economic



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progress, the shift to a new development model that relies more on the private sector, and the rapid growth in the flow of private capital to the developing world as reasons to end traditional foreign aid. Proponents stress the large number of outstanding needs and the value of assistance to achieve certain foreign policy objectives; they generally call for reform and revitalization—not elimination.

Our work on USAID's Housing Guaranty Program<sup>11</sup> highlights the complexities in assisting development by using foreign aid. This program, in place for over 30 years, has guaranteed about \$5 billion in loans to developing countries with the goal of stimulating increased private sector investment in housing for the poor. The program's original premise, however, did not adequately take into account the real world limitations to achieving this objective. In fact, it was not clear at the time of our work that USAID was even pursuing the original goal anymore, but rather had established new ones throughout the years in the face of a lack of demonstrated progress in meeting program goals. Based on GAO's work, the Congress has dramatically reduced funding for this program.

A consensus is emerging, however, regarding what seems to work and what does not. Recent examinations by respected institutions have concluded that the impact of economic assistance is modest and possible only in countries with good fiscal, monetary, and trade policies and effective governing institutions.

- Have clear priorities been established for foreign assistance programs?

In its 1997 strategic plan, developed in accordance with the Government Performance and Results Act, USAID appears to have established as a priority the importance of influencing domestic policy in the recipient countries. Many of the strategies it has described for achieving its major development goals involve persuading recipient countries to reform their economic, judicial, health care, and education policies and regulations.

While USAID has attempted to incorporate consideration of whether a recipient country has changed its policy environment into the process of deciding how much further aid to give to that country, the quality of a country's reform efforts is not yet a guiding factor in this process. Our analysis of USAID resource allocations for fiscal year 1996 does not show any significant difference between the proportion of aid allocated between

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<sup>11</sup>See Foreign Housing Guaranty Program: Financial Condition is Poor and Goals Are Not Achieved (GAO/NSIAD-95-108, June 2, 1995).

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the top-performing countries in policy reform and the poorer-performing countries. USAID acknowledges that political and foreign policy considerations continue to strongly influence USAID's budgeting process. Allocating foreign aid based only on policy performance would limit flexibility and would require consensus—which would be very difficult to achieve—that aid is only for the purposes of economic development and not for achieving other foreign policy objectives.

The next critical question that needs to be asked in this regard is whether USAID can continue to operate and be effective in a large number of countries, given the diminishing amount of foreign aid funds available. Despite having closed missions in 24 countries since 1993, USAID still has programs in over 80 countries. Many of these countries have relatively small programs. For example, in fiscal year 1996, ten countries received over 50 percent of all sustainable development assistance allocated to specific countries, with the remainder spread among 42 countries. In about half of these 42 countries, the United States is a relatively minor donor, not even among the top three bilateral aid donors. USAID has made some efforts to "graduate" its more successful aid recipients. Indeed, it has discontinued programs in some countries, such as Chile and Thailand, whose level of development no longer justifies foreign aid. However, USAID has not established formal criteria for determining which countries should continue to receive development assistance.

- Can we deliver foreign assistance at lower cost?

Despite the domestic skepticism attached to U.S. foreign aid in general, there still remains broad support for some specific programs—child survival and population programs are only two examples. For those programs that the U.S. government continues to support—and that meet the tests of relevance and priority—the next two questions should be (1) how can they be delivered most efficiently and (2) what level of accountability are we going to insist upon?

Four years of reform under the leadership of the USAID Administrator have resulted in a smaller, more streamlined aid bureaucracy that has achieved some operational efficiencies. USAID reengineering efforts have included reorganizing missions and eliminating unnecessary administrative requirements. USAID has also sought to focus its activities on a more manageable set of strategic objectives. This process has been further refined in USAID's strategic plan.

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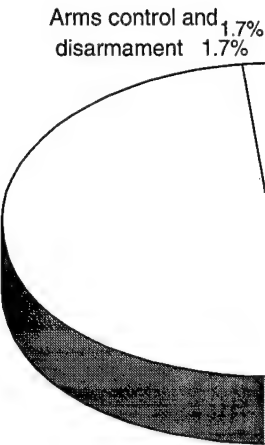
Nevertheless, some continue to question the USAID structure in light of the declining levels of U.S. aid and have suggested that other ways of delivering bilateral assistance should be considered. The ratio of USAID's operating expenses—about \$500 million—to the costs of the programs it administers—about \$4.9 billion—has been steadily increasing, with more USAID dollars going to manage a smaller aid program. One of the many options that have been discussed is the re-creation of USAID as a foundation—providing aid through nongovernmental organizations and without the hands-on implementation responsibilities and attendant infrastructure it now has. Of course it is not clear what implications the planned consolidation of some USAID and State Department administrative functions will have on USAID's operating expenses. The trade-off of this approach, of course, is the risk of misuse of U.S. aid dollars and a loss of accountability for program results, as well as perhaps more limited opportunities to use U.S. assistance to support new or emerging foreign policy objectives.

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## Foreign Affairs Management

In recent years, about 14 percent of the international affairs budget has been spent to fund activities related to the management of foreign affairs. Nearly all of this funding goes to support State Department operations (see fig. 7), including its headquarters, passport offices and other domestic offices across the United States, over 250 embassies and consulates overseas, and salaries for roughly 23,000 direct-hire employees worldwide. The remainder—about 3 percent—supports the Arms Control and Disarmament Agency (ACDA) and a variety of commissions and funds.

Figure 7: Distribution of Foreign  
Affairs Management Funding, Fiscal  
Years 1992-97



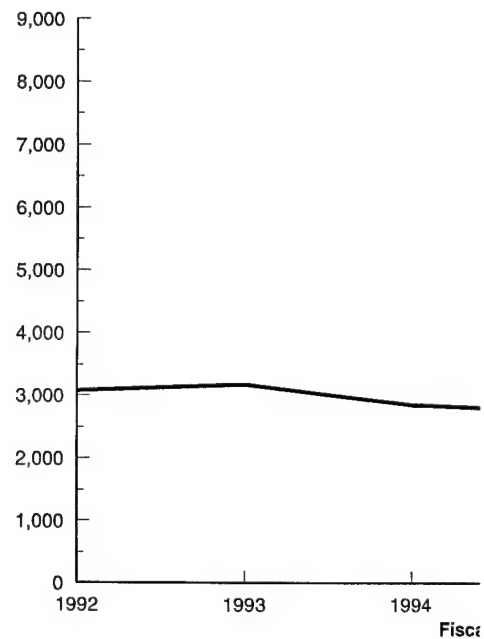
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Funding appropriated to State for foreign affairs management has declined in real terms by an average of 4 percent per year during fiscal years 1992-97 (see fig. 8). The fiscal year 1997 funding level of \$2.8 billion was about 15 percent lower than in fiscal year 1992. This decline has been ameliorated somewhat by visa fees that State has been allowed to retain since fiscal year 1995 to offset the cost of its operations—averaging about \$140 million per year.<sup>12</sup> The administration has requested a 4.9 percent real increase in appropriations for foreign affairs management in 1998. Under the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, State's work load will increase starting in April 1998. State will assume responsibility for adjudicating all applications for border crossing cards for Mexican nonresident aliens entering the United States, a responsibility it had previously shared with the Immigration and Naturalization Service. State estimates that it will need about 70 additional employees to handle the increased work load.

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<sup>12</sup>When these funds are included, the real average annual decline is about 3 percent, and the real funding level in fiscal year 1997 was 10 percent lower than in fiscal year 1992.

**Figure 8: Trends in Foreign Affairs  
Management Funding, Fiscal Years  
1992-97**



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Note: In millions of 1997 dollars.

Over the last several years, State has closed 30 overseas posts, reduced the general work force by about 2,200 positions, lowered overseas allowances, and cut operating budgets. A recent joint Brookings Institution/Council on Foreign Relations study concluded that State's ability to function effectively has been eroded, citing the existence of shabby, unsafe, and ill-equipped posts; obsolete information technology; and uneven staffing.

At the same time, GAO and others have raised concerns about the relevance and priority of some of State's activities and the efficiency with which it operates. Although the State Department has reduced staff and implemented some cost reduction measures, it has not undertaken a fundamental rethinking of its foreign affairs and diplomatic structure or significantly changed its business practices. This would involve reassessing the rationale for the current overseas structure and staffing, reviewing both the approach and the level of State's involvement in some functions and activities, and adopting better business practices.

Thus, some tough questions need to be asked:

- Does the United States need and can it afford all overseas posts as currently staffed and structured?

Given the cost of our overseas infrastructure, the Congress and the President need to make sure that State's post and staff structure is consistent with current U.S. foreign policy needs and that it makes the best use of U.S. resources and staff. About \$2 billion, or over 80 percent, of the amount spent on the administration of foreign affairs is tied to the operation of overseas posts. The current structure is based on State's policy of universality—a diplomatic presence in almost every country of the world, even those that by State's own admission are not critical to U.S. interests. The costs of a U.S. overseas presence vary widely. For example, in 1995 the post in Western Samoa cost \$2.5 million to operate and the U.S. mission in Germany cost over \$90 million.

Changing U.S. interests—and the mutable nature of the world problems the U.S. government faces—mean that we need to scrutinize U.S. presence and staffing on a mission-by-mission basis. Closing posts would meet opposition from various interests groups, and the savings from the closure

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of small individual posts would not be substantial. Greater regionalization of the U.S. diplomatic presence by having one ambassador accredited to serve in multiple countries is an option that could be explored to increase efficiency and lower costs. Taking advantage of modern telecommunications technology may make it feasible for State to consolidate a limited number of overseas posts. For example, the U.S. embassy in Bridgetown, Barbados, has full diplomatic responsibilities for 7 countries and partial diplomatic responsibility for 14 others in the eastern Caribbean; likewise, British ambassadors are accredited to 3 to 4 countries each in Africa. These could serve as models for a U.S. diplomatic reorganization in other regions beyond the Caribbean. We calculated that if State closed 20 small embassies and employed the above approach, State could reduce its costs by up to \$40 million annually, after closing costs were paid and U.S. direct-hire positions were eliminated.

- Can the State Department operate more efficiently?

The State Department is entering the 21st century with outdated and costly-to-maintain communications systems and weak and outdated management processes. State has not made the necessary investments to modernize its information technology and is only now beginning a serious attempt to improve its capabilities in this area. The success of those efforts is critical to achieving long-term savings in information management costs and to streamlining its business practices.

Our work has shown that State's business processes could be made more cost-effective. Just this month we reported<sup>13</sup> that the introduction of prevailing best management practices from the private sector into State's staff relocation process could save millions.

We have previously identified weaknesses in State's management of its overseas real estate portfolio and recommended a panel to review properties. At Congress' direction, State has established such a panel, including real estate experts from outside the department. The panel has begun its work, recommending properties for sale as well as those where local conditions preclude a sale at fair price to the U.S. government. The Congressional Budget Office estimated that State could generate \$150 million over the next 5 years by selling 100 properties that it has identified for potential sale. According to State, last fiscal year the department executed final sales of over \$60 million worth of properties

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<sup>13</sup>See State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service (GAO/NSIAD-98-19, Oct. 17, 1997).



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and reinvested those proceeds in needed facilities, which will also reduce future rental costs.

- Is State efficiently structured, and are all of State's functions and activities needed?

Our work suggests that the answer to the first part of this question is "no," and the answer to the second is "not clear." State maintains a headquarters with 6 geographic and 15 functional bureaus, including a bureau for international organizations. Some programs and administrative functions overlap between geographic and functional bureaus. For example, although State has a functional bureau with responsibility for political-military issues, it also has 24 political-military positions in other bureaus, including each geographic bureau. In a way, the geographic bureaus operate as six micro-State Departments. Add to this mix the work and policy interests of the bureau dedicated to working with international organizations, and you have a complicated structure in which to develop policy.

In addition to overlap within its own structure, State has bureaus, offices, and activities that mirror those of many other parts of the federal government, including agencies with primary responsibility for trade, agriculture, labor, and environmental issues. While State has a critical role in advancing U.S. interests in these increasingly international issues, it is not clear if the current approach and level of staffing to support its involvement are necessary. For example, although the Department of Labor is the lead U.S. representative in multilateral forums on labor issues, several State bureaus address these issues. To support work on labor issues, the State Department has 45 labor attachés overseas that gather detailed information on workers' rights outside the United States and prepare congressionally required reports. Work we completed in 1996<sup>14</sup> suggests that the 45 attaché positions and their corresponding headquarters complement may not be necessary because, according to several officials at overseas posts, labor issues could be adequately covered by the State Department's political and/or economic officers as they are in countries without attachés. The Congressional Budget Office estimated that eliminating these positions through attrition over 5 years would produce savings of \$30 million. State has proposed abolishing or lowering the rank of some labor attaché positions in the past but has encountered resistance from the Department of Labor and organized

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<sup>14</sup>See State Department: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-124, aug. 29, 1996).

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labor. There seems to be room to rethink State's involvement in such functions or at least its approach. The process specified in the Government Performance and Results Act is a good vehicle to address this issue by encouraging government agencies to improve coordination of cross-cutting functions.<sup>15</sup> However, we have examined the State Department's strategic plan and noted, among other concerns, that State does not clearly indicate how it plans to provide leadership and coordinate the programs of other agencies. In some cases, changing State's involvement may require congressional approval or interagency agreement. The problems with State's organizational structure are widely recognized within the Department, and the Secretary of State has expressed her commitment to crafting a Department that functions better, faster, and more flexibly as she consolidates State, USIA, and ACDA. To accomplish this, the Secretary has established 15 employee task forces to examine all aspects of State's operations with the goal of reducing potential overlap and improving the agency's decision-making process. According to a member of State's Reorganization Secretariat, the objective of the consolidation is to let the State Department spend less time negotiating with itself and more time engaged with foreign governments.

- How well is the consolidation of foreign affairs agencies being managed?

The April 1997 decision to consolidate the State Department, the USIA, and the ACDA and to integrate certain administrative functions of State and USAID presents a major management challenge, but it also creates an opportunity to achieve cost savings. Among the more straightforward tasks will be consolidating the organizations' similar administrative functions, such as travel and payroll. However, the consolidation also offers State a major opportunity to address potential overlaps and duplication not only in the areas of public diplomacy and arms control but also in all of the Department's activities and functions. Creativity will be needed to find a way of incorporating these functions into State's organization without taking the traditional approach of establishing positions for public diplomacy and arms control positions within both the functional and regional bureaus. If managed carefully and creatively, the consolidation should produce efficiencies and cost reductions over the long term.

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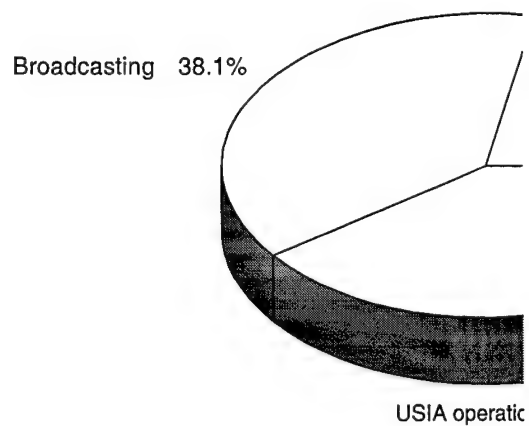
<sup>15</sup>See Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997).

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## Public Diplomacy

Let me turn now to the public diplomacy category—essentially the programs and activities of the USIA—which represents about 6 percent of the funding for international affairs programs. USIA salaries and expenses account for the bulk of public diplomacy funding; in fiscal years 1992-97, 40 percent was allocated for USIA personnel and operations at over 200 overseas locations and headquarters; about 38 percent for international broadcasting operations including the Voice of America; and about 22 percent for exchange programs such as Fulbright scholarships (see fig. 9).

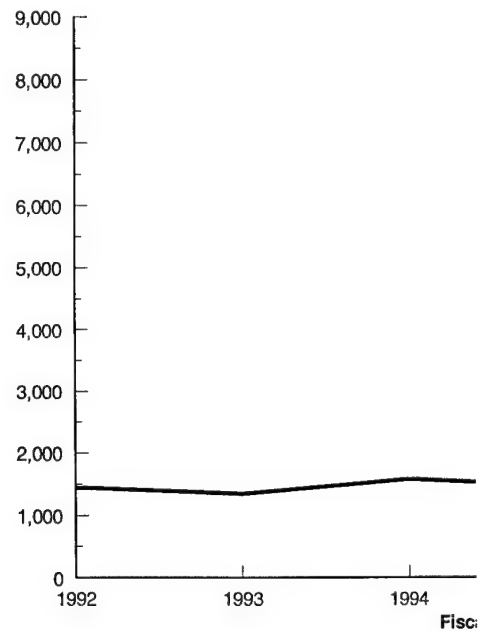
**Figure 9: Distribution of Public  
Diplomacy Funding, Fiscal Years  
1992-1997**



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Funding for public diplomacy has declined in real terms an average of about 6 percent annually during fiscal years 1992-97 (see fig. 10). Funding peaked in fiscal year 1994 due primarily to increased funding for educational and cultural exchange programs for the NIS and has declined since. The fiscal year 1997 funding level of \$1.1 billion was 25 percent lower than it was in fiscal year 1992. The largest decrease, between fiscal years 1995 and 1996, resulted from reductions in funding for exchanges, salaries, and expenses and the consolidation of international broadcasting activities. The executive branch has proposed a further 3.5 percent real decrease in funding for public diplomacy for fiscal year 1998. Over the years, the USIA's programs have shifted in emphasis from one part of the world to another in response to foreign policy initiatives and direction from the executive branch as well as to congressional mandates.

**Figure 10: Trends in Public Diplomacy  
Funding, Fiscal Years 1992-1997**



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Note: In millions of 1997 dollars.

Even before the announcement of its consolidation with the State Department, the USIA had cut staff, consolidated all nonmilitary international broadcasting, and developed a strategy to downsize its operations and reduce costs. However, difficult questions about the continuing relevance of some public diplomacy programs remain. Many USIA programs and the agency's overseas structure and infrastructure were established after World War II as the United States sought to counter the Soviet bloc and encourage the development of democracy. Legislative requirements have earmarked much of the USIA's budget for specific exchanges, broadcasting programs, and grantees. More radical changes in USIA activities and programs would be needed to generate significant additional cost reductions and would require the Congress to revisit some of these legislative requirements. They would also require the USIA and the State Department to change their traditional operating philosophy that the USIA should be located wherever the State Department has a presence.

Regarding public diplomacy funding, the key questions are whether we can continue to fund all USIA facilities abroad and whether we can achieve greater efficiencies in USIA broadcasting.

- Do we need and can we afford all USIA facilities overseas?

The USIA spends about 30 percent of its budget on salaries, infrastructure, and operating expenses for overseas installations—many in flourishing democracies. For example, the USIA spent \$9 million in 1995 for operations in Germany, including six outreach centers. The 77 staff at these centers, called "America Houses," provide information on U.S. policy and business and study opportunities and host cultural events. Much of the information the USIA provides is also generated by the private sector, is available electronically, and could be distributed by a private entity.

The USIA's efforts to reform and relocate outreach centers (of which it operates about 70) have reduced costs in some cases. The USIA estimated that the 1995 decision to close an America House in Germany in favor of a local government and business-supported German/American Cultural Center saved about a million dollars per year. Also, in Singapore, the USIA terminated a \$455,000 yearly lease for a cultural center and moved into embassy facilities. While the USIA should continue to explore such

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opportunities, eliminating posts altogether in up to 67 countries that by USIA's own criteria are relatively less important to U.S. interests would achieve more significant cost savings. The traditional belief that the USIA should be located where the State Department has a presence has made this difficult.

- Are all exchange programs essential, and are they targeted to meet U.S. objectives?

The USIA manages a variety of exchange programs to foster mutual understanding between the people of the United States and other countries. In 1950, shortly after the U.S. government began funding scholarships, it was the primary source of funding for 7.7 percent of foreign students in the United States. In 1994, only 1.2 percent, or about 5,400, of the 453,000 foreign students attending U.S. high schools, colleges, and universities received U.S. government funding as their primary source of support. During this period other federal agencies, as well as state and local governments and the private sector, have increased their roles in funding exchanges. The USIA currently accounts for only one-fourth of the funding for U.S. government exchange programs.

In 1996, the USIA acknowledged that non-USIA exchange opportunities were plentiful in some regions such as Western Europe and that therefore it was shifting exchange resources to regions that are not as fully represented by other U.S. government agencies or the private sector. Since the end of the Cold War, the Congress has appropriated funds to establish new exchange programs, particularly in countries of Central and Eastern Europe and the former Soviet Union.

Other agencies, including the Departments of Education and Defense, also engage in exchanges and other educational efforts with funding outside the 150 account. For example, the Department of Education funds a program to help improve civics and economics education in Central and Eastern Europe and the former Soviet Union. I would like to note that the House of Representatives' foreign affairs reform bill calls for the establishment of a working group to improve the coordination and effectiveness of U.S. government-supported exchanges.<sup>16</sup>

- Are there opportunities to achieve further efficiencies in international broadcasting?

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<sup>16</sup>See Foreign Relations Authorization Act, Fiscal Years 1998 and 1999, H.R. 1757, 105th Cong., section 1406.



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In the U.S. International Broadcasting Act of 1994 the Congress reaffirmed the importance of continued U.S. broadcasts to further U.S. interests. However, the Congress has reduced funding for most nonmilitary international broadcasting activities and mandated their consolidation. In 1996, the United States broadcasted over 1,600 hours of radio programming in 53 languages and over 400 hours of television in several languages worldwide each week to support U.S. foreign policy objectives. Only modest economies are possible by eliminating overlap and lessening duplication among broadcasters. Achieving significant cost savings would require a major reduction in the number of language services and broadcast hours. However, past experience has shown that eliminating even one language is a difficult process, due to the interest of the Congress, the National Security Council, and others and could impinge on the USIA's readiness in a crisis situation.

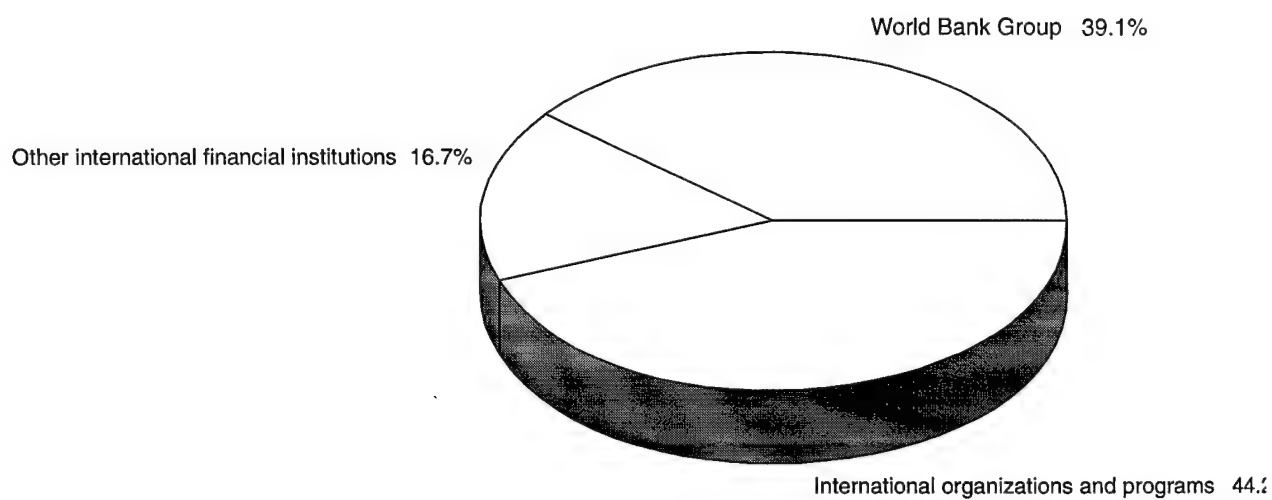
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## Multilateral Assistance

U.S. contributions to a variety of international organizations and programs consumed about 14 percent of the international affairs budget from fiscal years 1992 to 1997. Contributions to international organizations, including the United Nations, represented about 44 percent; about 39 percent funded our participation in the World Bank group, primarily for concessional (below-market interest rate) lending programs; and contributions to other international financial institutions (including the African, Asian, and Inter-American Development Banks and the European Bank for Reconstruction and Development) accounted for the remaining 17 percent. (See fig. 11.) The vast majority of funds the United States provides to the World Bank is used to finance interest-free loans to the poorest developing countries through the Bank's International Development Association (IDA). The two largest recipients are India and China, which together received almost 30 percent of these loan funds—or \$2.4 billion each—in fiscal years 1994-96. As China continues to develop, IDA lending to that country is being phased out and is slated to end in 1999.

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**Figure 11: Distribution of Multilateral Assistance Funding, Fiscal Years 1992-97**



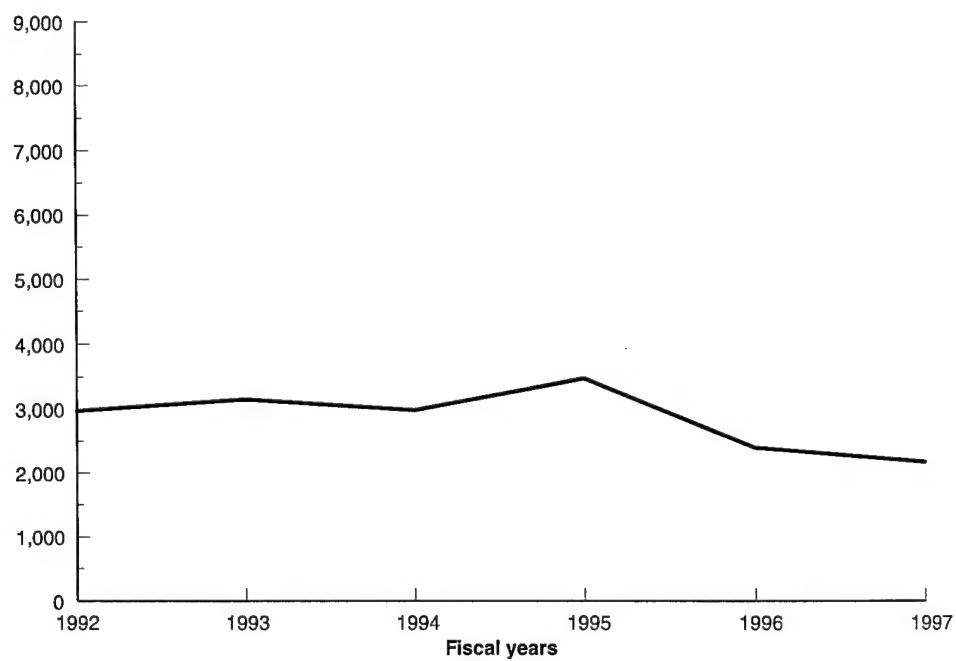
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Funding for multilateral assistance has declined in real terms an average of about 6 percent per year during fiscal years 1992-97, as shown in figure 12. Funding peaked in fiscal year 1995, with larger than average contributions to the World Bank. Since then, contributions to the World Bank and other international financial institutions and the United Nations have declined to almost \$2.2 billion in fiscal year 1997—a level about 27 percent lower than in fiscal year 1992. For fiscal year 1998, the executive branch has requested a real increase of 32.5 percent for multilateral assistance, largely to return annual funding of multilateral organizations to traditional levels.<sup>17</sup>

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<sup>17</sup>This does not include a requested advance appropriation of \$921 million to clear U.S. arrears to the United Nations and other multilateral organizations, which, if approved, would not be available until fiscal year 1999. It also does not include \$3.52 billion in budget authority for the International Monetary Fund's New Arrangements to Borrow (which would not result in budget outlays).

**Figure 12: Trends in Multilateral Assistance Funding, Fiscal Years 1992-97**



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Note: In millions of 1997 dollars.

Concerning multilateral assistance, the key questions are whether such assistance continues to serve U.S. interests and can be delivered more efficiently.

- Are all of the multilateral organizations that we participate in still relevant?

Reviewing multilateral assistance involves taking a hard look at the continuing relevance of many international organizations and the extent to which they serve U.S. interests. The State Department believes that ongoing U.S. membership in these organizations is important to the United States because their activities contribute in varied ways to U.S. security, prosperity, health, and safety. Our review of the operations of several of these organizations indicates that their policies and agendas are consistent with U.S. national security and foreign policy objectives and provide significant benefits in such areas as development, global health, and scientific research.<sup>18</sup>

The U.S. government participates in dozens of other international organizations established to serve specialized but limited functions, such as the World Road Association and the International Copper Study Group. The United States provided about \$11 million in 1995 to organizations that the State Department viewed as making only limited contributions to U.S. interests.<sup>19</sup> In recent years, the United States has withdrawn from two such organizations. State's attempt to withdraw from at least one other organization, the International Cotton Advisory Committee, met with congressional opposition. A State official told us that other attempts would likely meet the same type of resistance.

Support for the World Bank has been the subject of periodic controversy in the United States. The purpose of the World Bank is to promote economic growth and the development of market economies by providing finance on reasonable terms to countries that have difficulty obtaining

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<sup>18</sup>United Nations: U.S. Participation in Five Affiliated International Organizations (GAO/NSIAD-97-2, Feb. 27, 1997) and International Organizations: U.S. Participation in the United Nations Development Program (GAO/NSIAD-97-8, Apr. 17, 1997).

<sup>19</sup>State Department: U.S. Participation in Special-Purpose International Organizations (GAO/NSIAD-97-35, Mar. 6, 1997).

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capital. Critics of the Bank often cite the end of the Cold War, the recent rapid increase in private investment in developing countries, and weaknesses in project effectiveness and management reforms. In September 1996, we reported that participation in the World Bank furthered U.S. interests because it generally leverages other donors' funds for programs and geographical areas that the U.S. government wants to support.<sup>20</sup>

- Can the efficiency and effectiveness of these organizations be improved?

The State Department acknowledges that some U.N. organizations are not operating efficiently and effectively and that some of them have functions that overlap. However, the organizations have begun to address weaknesses in the management and administration of their operations and programs that have been the subject of frequent criticism by the Congress and others. The United States and other member states are continuing to call for reforms in the belief that greater efficiency in these agencies could reduce their cost. With U.S. encouragement and assistance, the United Nations has embarked on a program of reform. Reforms could reduce costs; however, their fate is uncertain, and they cannot be expected to be completed anytime soon.

Regarding the World Bank, U.S. interests could be better served by the World Bank if it could improve its record of effectiveness. Reforms have been implemented and show some early signs of progress, but in some areas major impediments still remain and improvements do not seem to have taken hold. Through its leadership, the United States is positioned to ensure that Bank reforms continue to progress and to have a positive impact on development effectiveness. To this end, we recommended that the Secretary of the Treasury monitor and periodically report to the Congress measurable indicators of progress, such as the extent to which the Bank allocates financing to those countries that make Bank-advocated market and policy reforms.

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## Trade and Investment

International trade and investment funding represented about 4 percent of the international affairs budget in fiscal years 1992-97. Trade and investment funding supported primarily the Eximbank, the Trade and Development Agency, and the International Trade Commission. (See fig. 13). Figure 13 excludes OPIC because it returned net revenue to the U.S.

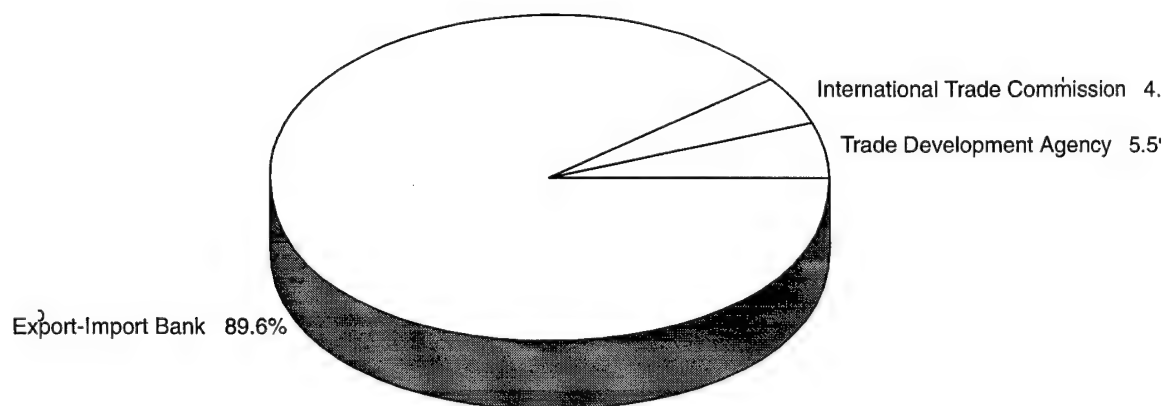
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<sup>20</sup>World Bank: U.S. Interests Supported, but Oversight Needed to Help Ensure Improved Performance (GAO/NSIAD-96-212, Sept. 26, 1996).

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Treasury during this period. Related—and large—expenditures for trade and investment activities and programs outside the 150 account include the activities of the Commerce Department's International Trade Administration, the Office of the U.S. Trade Representative, the various agricultural trade promotion and credit guaranty programs, and the programs of the Small Business Administration.

**Figure 13: Distribution of Trade and Investment Funding, Fiscal Years 1992-97**

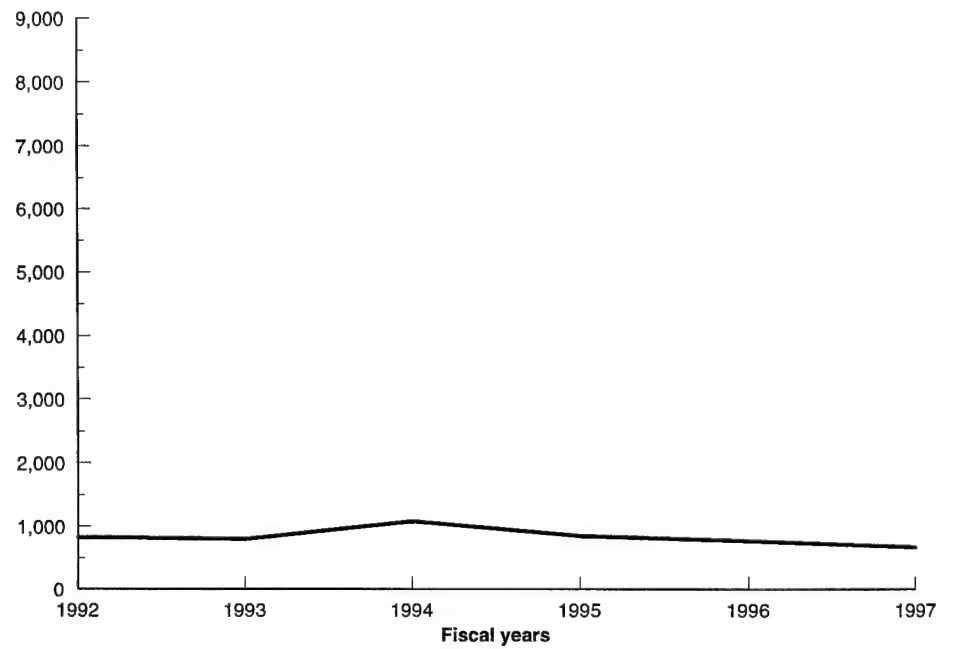




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The largest increase in international trade and investment funding, between fiscal years 1993 and 1994, was due primarily to higher funding for programs in the NIS. Funding has continuously declined since reaching its highest level in 1994, with the fiscal year 1998 request representing a decrease of almost 20 percent in real terms over the preceding year. (See fig. 14.)

**Figure 14: Trends in Trade and Investment Funding, Fiscal Years 1992-97**



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Note: In millions of 1997 dollars.

Eximbank and OPIC programs have become increasingly controversial in recent years, generating questions about whether they continue to be relevant and whether government costs and taxpayer risk can be reduced. Both organizations provide loans, guarantees, and insurance to support U.S. exports or market-oriented private investment. In some risky markets where the Eximbank operates, some borrowers miss payments or default on entire loans; such losses must be covered by the Eximbank, resulting in subsidy costs to the federal government.

- Are the programs of the Eximbank and OPIC relevant in today's environment?

OPIC was created in 1969 to help mobilize U.S. capital and skills for the economic and social advancement of developing countries—a major U.S. foreign policy objective. The Eximbank's creation was spurred by the economic conditions of the 1930s, when exports were viewed as a stimulus to economic activity and employment. The Congress continues to debate the relevance of export promotion and investment programs, most recently as it considered whether to reauthorize the Eximbank and OPIC. The debate has centered on the need for government support and the organizations' costs and benefits. Critics question whether the U.S. government should provide direct assistance to private exporters and investors. They charge that expenditures to subsidize the transactions of the Eximbank and OPIC amount to "corporate welfare." In the case of the Eximbank, critics claim that a substantial portion of its subsidy expenditures and financing commitments is used to support the operations of large exporting multinational firms that are experienced exporters and have their own resources to export their products. Moreover, the economic benefits of the programs are uncertain. Some economists argue that the market is a much more efficient allocator of resources than the government and that these programs cannot produce a substantial change in employment levels. The nearly fivefold increase in private investment flows to the developing world since 1990 may also raise questions concerning the continued need for the Eximbank and OPIC, given the private sector's growing willingness to support trade and investment transactions in some emerging markets.

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Conversely, proponents of continued U.S. government support argue that there is still a niche for the Eximbank and OPIC. Risky markets still exist where the private sector is reluctant to operate or invest without public financing. Concerning the Eximbank, our recent work indicated that although definitive evidence about the economic impact of U.S. government trade programs is lacking,<sup>21</sup> perhaps the most compelling argument in defense of the Eximbank is its role in helping to “level the international playing field” for U.S. exporters. All major industrialized countries operate similar programs and thus are primarily countered through U.S. programs. Our recent work on OPIC suggests that, despite increasing private capital flows to the developing world, there are still markets where U.S. private firms told us they are unwilling to participate without some form of public support, be it from OPIC, the Eximbank, foreign governments, or multilateral organizations.<sup>22</sup>

Turning to OPIC, historically its combined finance and insurance programs have been self-sustaining. OPIC’s net income from transactions with the private sector amounted to about \$43 million in fiscal year 1996.<sup>23</sup> During fiscal year 1996, approximately 18 percent of OPIC’s financing commitments supported small businesses and cooperatives; the remaining 82 percent supported large businesses. The U.S. foreign policy objective of promoting private investment in developing countries encourages OPIC to underwrite risks that the private sector may not assume without public support. OPIC, the State Department, and other U.S. government officials consider OPIC to be a major tool for pursuing U.S. foreign policy goals, such as assisting Russia in its transition toward achieving a free market economy.

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<sup>21</sup>We recently reported that, because of the continued expansion of U.S. exports, the share of exports supported by the Eximbank has been decreasing over the years. It fell to less than 2 percent in 1995, the lowest level of support provided by major industrial nations’ export credit agencies. The major users of Eximbank financing include several large, well-known firms such as Boeing, Raytheon, General Electric, Bechtel, and Asea Brown Boveri. During fiscal years 1994 through 1996, these and the other top 15 users of Eximbank financing accounted for about \$14.4 billion, or 38 percent, of the Eximbank’s total export-financing commitments and about 27 percent of its total program budget, or subsidies. Meanwhile, a growing level of support has been directed to small business—during fiscal years 1994 to 1996, about 20 percent of the Eximbank’s total financing commitments went to support small business. During fiscal years 1992 to 1996, subsidy costs averaged \$750 million annually. See *Export-Import Bank: Key Factors in Considering Eximbank Reauthorization* (GAO/T-NSIAD-97-215, July 17, 1997) and *Export-Import Bank: Options for Achieving Possible Budget Reductions* (GAO/NSIAD-97-7, Dec. 20, 1996).

<sup>22</sup>*Overseas Investment: Issues Related to the Overseas Private Investment Corporation’s Reauthorization* (GAO/NSIAD-97-230, Sept. 8, 1997).

<sup>23</sup>OPIC’s net income was \$209 million in fiscal year 1996 when \$166 million in interest earned on Treasury securities is included.

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- Are there opportunities to support U.S. exports and investments while reducing costs and risks?

If legislation is enacted reauthorizing Eximbank and OPIC, the question becomes whether there are opportunities to reduce the costs of their programs. The Eximbank and OPIC could undertake actions such as better leveraging resources, decreasing portfolio risk, and lowering costs by raising their fees, changing their portfolio mix, or changing the structure of their transactions. For example, work we completed in 1996 identified two options that would allow the Eximbank to reduce subsidies while remaining competitive with foreign export credit agencies: (1) raising fees for services; and (2) reducing the risks of its programs; that is, limiting program availability in certain high-risk markets. The Congressional Budget Office estimated that increasing fees could save the Eximbank up to \$450 million over 5 years, and reducing program risks could save up to \$1.2 billion over 5 years. Some progress has been made: the Organization for Economic Cooperation and Development, with U.S. leadership, has now set a minimum fee for services effective in April 1999. This should provide the Eximbank with the opportunity to further reduce the costs of its operations.

Our recent work suggests that OPIC could further reduce the risk in its portfolio, given the private sector's willingness to have greater involvement in some emerging markets. For instance, OPIC could lower the risks associated with its portfolio through increased use of reinsurance and coinsurance and by decreasing project coverage or terms. However, if OPIC is to continue pursuing its mission of promoting investment in risky markets, its portfolio will always be considered more risky than the portfolios of private sector insurers.

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Mr. Chairman, this concludes my prepared remarks. I would be happy to respond to any questions you or other Committee members may have. Attached to my written statement is a list of related reports and products that GAO has recently completed.



# Examples of Discretionary International Activities Related to the 150 Account

This appendix contains two tables. The first table shows international-related programs with identified funding. The second table shows international-related programs where specific funding is not identified. These tables are intended to illustrate the broad range of activities that support U.S. international policy objectives and are funded outside the 150 account.

**Table I.1: International Programs With Identified Funding**

Program	International role	FY 1998 request (millions)
<b>Executive Office of the President</b>		
National Security Council	Advises the President on the integration of domestic, foreign, and military policies relating to national security. Coordinates U.S. policy issues on combating terrorism for federal efforts to respond to terrorist incidents abroad or domestic incidents with foreign involvement.	\$7
Office of Management and Budget: National Security and International Affairs	Examines programs, budget requests, and management activities; proposes changes; and participates in counterterrorism efforts.	7
Office of the U.S. Trade Representative	Develops, coordinates, and advises the President on U.S. international trade policy; conducts international trade negotiations; and conducts U.S. affairs related to the World Trade Organization.	22
<b>Department of Agriculture</b>		
Commodity Credit Corporation: Export Loans Program	Administrative expenses only. Bulk of funding is mandatory. In order to increase U.S. agricultural exports, the Corporation guarantees payments due from foreign banks and buyers.	4
Foreign Agricultural Service	Opens, expands, and maintains global market opportunities through international trade, cooperation, and sustainable development.	147
Public Law (P.L.) 480 Title I Program	Encourages export of agricultural commodities by financing sales to developing countries and promotes foreign policy by enhancing the food security of developing countries. Through the program, U.S. agricultural commodities are sold to developing countries on long-term credit at below-market interest rates.	90
<b>Department of Commerce</b>		
Export Administration	Enforces U.S. export trade laws consistent with national security, foreign policy, and short supply objectives.	43
International Trade Administration	Develops the export potential of U.S. firms in a manner consistent with national security and foreign and economic policy and promotes an improved trade posture for U.S. industry.	272
National Telecommunications and Information Administration	Serves as principal adviser to the President on domestic and international communications policy. Develops and advocates U.S. interests in international telecommunications regulation and policy and helps oversee the Communications Satellite Corporation (COMSAT), the U.S. signatory to international satellite organizations.	5
Technology Administration	Serves as the focal point for civilian technology and competitiveness in the administration, improves U.S. industrial competitiveness and exercises leadership as the private sector's advocate, participates in international science and technology groups and agreements.	9
<b>Department of Defense</b>		

(continued)

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>	<b>FY 1998 request (millions)</b>
Defense Export Loan Guarantee Program Account	Established in FY 1996 to issue guarantees for sale or long-term lease of defense articles, services, or design and construction services to a NATO member, non-NATO ally, and certain countries in Central Europe and Asia.	1
Drug Interdiction and Counter-drug Activities	Assists U.S. and foreign government law enforcement agencies by providing detection, monitoring, and tracking support; intelligence support; planning assistance; and communications, logistics, and training support.	653
Former Soviet Union Threat Reduction	Facilitates elimination, transportation, and storage of nuclear, chemical, and other weapons; establishes programs to prevent proliferation; and trains and supports defense personnel for demilitarization and protection of weapons.	382
NATO Security Investment Program	Acquires and constructs military facilities and installations and funds related expenses for the collective defense of the North Atlantic Treaty Area.	176
National Security Education Trust Fund	Funds international-related studies of U.S. students.	2
On-site Inspection Agency	Supports international arms control treaty implementation, including inspections of foreign facilities, territories, or events.	109
Overseas Contingency Operations Transfer Fund	Funds Bosnia Peace Operation. Assumes June 1998 U.S./NATO military pullout.	1,468
Support of Other Nations (Army)	Provides U.S. financial contributions for the operation of the NATO international military commands and facilities, the NATO Airborne Early Warning and Control System, and the Central European Operating Agency Pipeline System; supports U.S. personnel assigned to international organizations; funds programs that further Army-to-Army cooperation with allied and friendly nations; supports Latin American Cooperation activities and the School of the Americas; and funds the Marshall Center (Institute for Eurasian Studies), nonsecurity assistance of military groups, and unreimbursed costs of foreign military sales activities.	305
Overseas humanitarian, disaster, civic aid	Funds two programs: general Humanitarian Assistance and Foreign Disaster Relief Program and Humanitarian Demining Program.	80
<b>Department of Education</b>		
International Education Exchange	Helps improve civics and economics education in Central and Eastern Europe, the former Soviet Union, and the United States.	5
<b>Department of Energy</b>		
Falcon and Amistad Hydroelectric Facilities: operation, maintenance, and emergency expenses.	Most of funds given to International Boundary and Water Commission, which assists in operating the facilities, through a reimbursable agreement with EPA.	1
International clean coal technology	Introduces U.S. clean coal technology in China for electricity production. Electricity demand in China represents a significant market for U.S. vendors. \$50 million available October 1998.	50
International Nuclear Safety and Security	Supports safety improvements; encourages development and continuation of a U.S. equivalent nuclear safety culture at select Soviet-designed reactor sites; addresses safety and nonproliferation concerns in the former Soviet Union; supports closure of Chernobyl; and continues efforts at Argonne National Laboratory regarding spent fuel.	81
Nonproliferation and National Security	Provides policy, direction, technology development and implementation, and leadership in national and international efforts to reduce the danger to national security posed by weapons of mass destruction.	671

(continued)



**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>	<b>FY 1998 request (millions)</b>
Large Hadron Collider Project	Supports international agreement in physics. \$394 million advance appropriation requested for fiscal years 1999-2004.	35
<b>Department of Health and Human Services</b>		
Fogarty International Center for Advanced Study in the Health Sciences	Hosts symposiums, organizes cooperative research between the National Institutes of Health and foreign scientists, provides fellowships to foreign scientists in the United States, supports foreign research by U.S. fellows, and hosts foreign visitors to the NIH.	17
Refugee Resettlement Assistance	Provides assistance in order to help refugees achieve economic self-sufficiency and social adjustment within the shortest time possible following their arrival in the United States.	396
<b>Department of the Interior</b>		
Compact of Free Association	Funds economic assistance and necessary expenses for the Republics of the Marshall Islands and Palau and the Federated States of Micronesia.	8
National Park Service - international	Cooperates through training and technical assistance programs with foreign park service and conservation personnel, participates in studies of coastal resource management, and assists in protecting and managing internationally significant sites.	2
North American Wetlands	Fulfills obligations under the North American Waterfowl Management Plan with Canada and Mexico. May fund projects in Canada or Mexico.	15
<b>Department of Justice</b>		
Federal Bureau of Investigation (FBI)	Total costs of international activities will be higher. Continues legal attaché expansion plan, assigns additional agents overseas to fight drug trafficking, and continues investigative efforts against drug trafficking and public corruption along the Southwest border.	34
Interpol-U.S. National Central Bureau	Serves as U.S. liaison to International Criminal Police Organization and facilitates international law enforcement cooperation.	7
<b>Department of Labor</b>		
International Labor Affairs	Supports U.S. foreign policy objectives through relationships with international organizations and foreign governments; provides analysis on the labor market and economic impact of trade proposals and legislation, and immigration-related initiatives; and does assessments of compliance with worker rights provisions in U.S. trade law.	11
<b>Department of State</b>		
International Boundary and Water Commission	Negotiates and supervises joint projects with Mexico to solve international problems and operate and maintain facilities.	18
International Boundary and Water Commission: construction	Constructs projects to solve international problems of water supply and quality, sewage treatment, and flood-damage reduction. EPA reimburses.	6
International commissions	International Boundary Commission maintains boundary between the United States and Canada. International Joint Commission approves, regulates, and monitors structures in boundary waters and investigates matters referred by the United States and Canada, mainly transboundary environmental issues. Border Environment Cooperation Commission works with states and local communities to develop solutions to environmental problems in border regions.	6
International Fisheries Commissions	Funds U.S. share of expenses for eight international fisheries commissions, three international marine science sea organizations, one international council, and the expenses of the commissioners.	15
<b>Department of Transportation</b>		

(continued)

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>	<b>FY 1998 request (millions)</b>
Maritime Administration: Maritime Guaranteed Loan (title XI) Program	Promotes growth of U.S. merchant marine and shipyards. Extended to foreign purchasers and for conversion from military to international commerce.	39
Maritime Security Program	Replaces operating-differential subsidies. Maintains a U.S.-flag merchant fleet crewed by U.S. citizens to serve U.S. commercial and national security needs. Pays U.S. shippers engaged in U.S.-foreign trade.	54
Maritime Administration: operations and training	Increases competitiveness and productivity of U.S. maritime industries and provides manpower for emergencies. Funds administration and direction, officer training, coordination of U.S. maritime industry activities under emergency conditions; promotes port and intermodal development; and undertakes technology assessment projects.	70
<b>Department of the Treasury</b>		
Secretary - international activities	Recommends and implements U.S. international tax, financial, fiscal, and economic policies; maintains foreign assets control; manages development financial policy; represents the United States on international monetary, trade, and investment issues and treaties; oversees operations abroad; and oversees law enforcement bureaus.	29
<b>The Judiciary</b>		
U.S. Court of International Trade	Exercises original and exclusive jurisdiction of civil actions against the United States, and certain civil actions brought by the United States, arising out of import transactions and federal statutes affecting international trade.	10
<b>Independent</b>		
Intelligence Community Management Account	Supports intelligence community.	96
NASA: Space Station	Participates in international research project.	2,114
NASA: U.S./Russia Program	Participates in joint space missions, including Mir.	7
<b>Total funding request</b>		<b>\$7,579</b>

Legend

EPA = Environmental Protection Agency  
FY = fiscal year  
NASA = National Air and Space Administration  
NATO = North Atlantic Treaty Organization  
NIH = National Institutes of Health

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

**Table I.2: International-Related Programs Where Specific Funding Is Not Identified**

<b>Program</b>	<b>International role</b>
<b>Executive Office of the President</b>	
National Economic Council	Participates in setting and carrying out all international affairs goals.
Office of National Drug Control Policy	Oversees international drug control programs. Develops U.S. national drug control strategy and oversees and coordinates the drug control efforts of about 50 different U.S. federal agencies engaged in implementing the strategy. Supports protection of U.S. air, sea, and land borders from the importation of illegal narcotics.
Office of Science and Technology Policy	Coordinates implementation of international science and technology agreements.
Unanticipated needs	Furtheres national interest, security, or defense at home or abroad.
<b>Department of Agriculture</b>	
Alternative agricultural research	Helps improve U.S. competitiveness abroad.
Animal and Plant Health Inspection	Participates in foreign cooperative programs, inspections, and international trade in certain endangered species.
Commodity Credit Corporation: supply and foreign purchases	Procures goods from foreign and domestic sources for foreign and domestic use.
Farm Service Agency	Supports Foreign Agricultural Service.
Food Safety and Inspection	Inspects domestic plants involved in foreign trade and reviews foreign inspection systems.
Grain inspection, packers, and stockyard	Regulates weighing of grain and registers buyers in foreign commerce, briefs foreign buyers, assesses foreign inspection and weighing techniques, and responds to foreign complaints.
Office of the Chief Economist	Collects and analyzes data on international food and agriculture.
<b>Department of Commerce</b>	
Bureau of Economic Analysis	Prepares international economic accounts that provide information on international transactions in goods, services, investment income, and government and private financial flows and are used to formulate and evaluate international economic policy.
Bureau of the Census	Collects and publishes foreign trade statistics.
Minority Business Development Agency	Expands international markets for minority-owned businesses.
National Institute of Standards and Technology	Assists with international standardization certification.
National Oceanic and Atmospheric Administration	Monitors compliance with select fisheries acts, monitors and predicts global environments, and supports global environmental programs.
Patent and Trademark Office	Develops and implements intellectual property policies and proposals abroad.
<b>Department of Defense</b>	
Counterterrorism	Combats terrorism; with the FBI, trains and equips former Soviet Union and Eastern European law enforcement officials, judges, and prosecutors to counter nuclear material smuggling and trafficking and chemical and biological weapons proliferation.
Other countries' participation in joint exercises	Supports foreign partners' participation in joint exercises and projects, including the Warsaw Initiative, Army's Developing Countries Combined Exercise Program, and Joint Contact Team.
<b>Department of Education</b>	
Bilingual and immigrant education	Assists local educators in providing high-quality instructional programs to children and youth with limited English proficiency.

(continued)

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>
International language and study	Supports international education and foreign language study programs.
<b>Department of Energy</b>	
Counterterrorism	With others, trains personnel from six countries in the former Soviet Union on investigating and prosecuting nuclear-related crimes; and reduces the opportunity for terrorists to acquire nuclear materials.
Defense Environmental Restoration	Receives and manages foreign research reactor spent nuclear fuel.
Energy Efficiency and Pollution Prevention	Increases national security and creates jobs and global opportunities for U.S. firms.
Energy Information Administration	Prepares reports on international matters.
Energy Supply Research and Development	Improves prediction of global change, including climate; provides scientific contribution to international activities and negotiations; enhances global sales of U.S. energy products, and provides technical assistance.
International agreements	Participates in the development and implementation of international agreements, such as the Nuclear Safety Convention, the U.S./North Korean Agreed Framework on Nuclear Issues, and the Agreement for Cooperation Between the United States and the European Atomic Energy Community Concerning Peaceful Uses of Atomic Energy.
Nuclear Materials Management and Safeguards System	Tracks civilian-use nuclear materials imported by the United States and exported to foreign countries. Relies largely on data required to be reported under international agreements for peaceful nuclear cooperation.
Office of Policy	Formulates international energy policy, analyzes and assesses current world energy situation, and participates in international efforts.
Strategic Petroleum Reserve	Enables the United States to meet International Energy Agency's emergency response plans.
U.S. Bilateral Physical Protection Program	Evaluates foreign countries' physical protection systems, addresses emerging nuclear proliferation threats and problems, promotes technical exchanges and cooperation for physical protection, strengthens international cooperation and implementation of treaties and agreements.
Western Area Power Administration	Markets power from federally owned power plants, including the International Boundary and Water Commission.
<b>Department of Health and Human Services</b>	
Office of International and Refugee Health	Promotes achievement of U.S. and international goals through participation in multilateral health organizations, promotes cooperative health programs with other countries, provides humanitarian and developmental assistance in health, and helps assure appropriate policies and support on refugee health issues internationally.
<b>Department of the Interior</b>	
Assistance to territories	Supports operations and provides assistance to territories and freely associated states.
Fish and Wildlife Service: international	Provides technical assistance, training, joint research, and personnel exchanges in international fisheries and wildlife management efforts, including the protection of biological diversity.
Fish and Wildlife Service: Rhinoceros and Tiger Conservation Fund	Enhances compliance with international agreement on trade in endangered species.
<b>Department of Justice</b>	
Counterterrorism Fund	Supports efforts to counter, investigate, or prosecute domestic or international terrorism.

(continued)

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>
Criminal Division	Supports the formulation and execution of international criminal justice enforcement policies; participates in the negotiation of international agreements and treaties relating to criminal law enforcement, extradition, and mutual legal assistance; posts attorneys abroad; enforces U.S. laws against importing goods made with prison labor by prosecuting criminal cases; prosecutes cases against international drug traffickers and money launderers and seizes and forfeits their illicit proceeds and laundered assets overseas.
Drug Enforcement Administration	Conducts international investigations, posts staff overseas, coordinates drug enforcement intelligence gathering overseas, conducts law enforcement operations, and provides training to foreign government law enforcement personnel.
Drug Enforcement Administration: Violent Crime Reduction Program	Participates in foreign cooperative investigations.
FBI	Protects the United States from foreign hostile intelligence efforts. Assist international law enforcement agencies. Combat terrorism; with others, train and equip former Soviet Union and Eastern European law enforcement officials, judges, and prosecutors to counter nuclear material smuggling and trafficking and chemical and biological weapons proliferation.
Federal prison system	Provides technical assistance and advice on corrections-related issues to foreign governments.
Immigration and Naturalization Service	Administers laws relating to the admission, exclusion, deportation, and naturalization of aliens; posts staff abroad; and conducts investigations.
Legal activities	Enforces U.S. laws against importing goods made with prison labor by prosecuting criminal cases and defending Customs' determinations; prosecutes cases against international drug traffickers and money launderers and seizes and forfeits their illicit proceeds and laundered assets domestically and abroad.
<b>Department of Transportation</b>	
Coast Guard	Conducts safety programs; supports international investigations; posts staff abroad; eliminates maritime routes as a significant trafficking mode for the supply of illegal drugs to the United States; and enforces treaties.
Federal Aviation Administration	Conducts safety programs, supports international investigations, posts staff abroad, provides technical assistance, oversees foreign carriers, and supports efforts to combat terrorism domestically and abroad.
Federal Highway Administration	Promotes U.S. businesses abroad and provides technical assistance to foreign governments (reimbursed).
National Transportation Safety Board	Helps to develop worldwide safety standards and practices in civil aviation, disseminates accident and incident information, and helps foreign countries investigate transportation accidents.
Office of International Aviation	Negotiates bilateral aviation accords and addresses problems U.S. airlines face in doing business abroad.
Transportation policy and planning	Provides departmental leadership on aviation economic policy and international transportation issues.
<b>Department of the Treasury</b>	
Bureau of Alcohol, Tobacco, and Firearms	Supports international law enforcement, posts staff abroad, and trains foreign law enforcement officials.
Comptroller of the Currency	Coordinates with foreign counterparts, participates in international banking agreements, and charters and supervises foreign banks.
Debt Collection Improvement Account	Settles international claims.

(continued)

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>
Federal Law Enforcement Training Center	Trains foreign law enforcement officials (reimbursable).
Financial Crimes Enforcement Network	Identifies underlying criminal financial activity and emerging trends and patterns of international money laundering investigations; empowers international law enforcement to take action against financial criminals through the transfer of information and expertise; and helps other countries meet international anti-money laundering standards.
Internal Revenue Service	Assists international investigations, posts staff abroad, trains foreign law officials, provides technical assistance to foreign governments, manages tax treaties, and monitors compliance of foreign-controlled companies with relevant U.S. income tax laws.
U.S. Customs Service	Processes persons and cargo entering the United States; enforces import and export laws; collects and reports trade statistics; supports international investigations; enforces international agreements; supports counterterrorism efforts; with others, trains personnel from six former Soviet Union countries on investigating and prosecuting nuclear-related crimes; and interdicts illegal drugs and investigates drug-smuggling organizations.
U.S. Secret Service	Assists international investigations; posts staff abroad; provides technical assistance to foreign governments; and protects select foreign visitors, foreign diplomatic missions in the United States, and select U.S. officials abroad.
<b>The Judiciary</b>	
U.S. Court of Appeals for the Federal Circuit	Exercises jurisdiction over international trade cases.
Defender Services	Compensates and reimburses travel expenses of guardians acting on behalf of financially eligible minor or incompetent offenders in connection with transfers from the United States to foreign countries.
<b>Legislative</b>	
Legislative branch boards and commissions	Participates in Commission on Security and Cooperation in Europe and House and Senate international meetings.
Library of Congress: International Copyright Institute	Trains nationals of developing countries in intellectual property laws and policies.
Library of Congress	Operates overseas centers.
U.S. General Accounting Office	Provides information on national security and international affairs and gives training to foreign audit organizations.
<b>Independent</b>	
Central Intelligence Agency	Gathers intelligence abroad.
Commodity Futures Trading Commission	Coordinates with international regulators.
Environmental Protection Agency	Participates in international negotiations, provides technical assistance, opens commercial opportunities for U.S. firms, supports international research, and supports U.S.-Mexico Border Environmental Plan.
Federal Communications Commission	Helps oversee COMSAT. Promotes competition in international telecommunications.
Federal Labor Relations Authority	Resolves labor negotiation impasses, including those involving Panama Canal workers.
Federal Reserve System	Self-financing entity but revenues contribute to total U.S. government revenues. Conducts monetary policy (including helping to stabilize financial markets internationally and to detect and combat counterfeiting of U.S. currency abroad), supervises and regulates banks (including the foreign activities of member banks, U.S. operations of foreign banks, and international banking agreements), and coordinates with international counterparts.
Marine Mammal Commission	Recommends international policies on marine mammals.
NASA: Commercial Technology Program	Strengthens international competitiveness of key industry sectors.

(continued)

**Appendix**  
**Examples of Discretionary International**  
**Activities Related to the 150 Account**

<b>Program</b>	<b>International role</b>
NASA: life and microgravity science	Refines the experiment hardware planned for use on the International Space Station.
NASA: mission communication services	Supports international space-faring agencies on a reimbursable basis.
NASA: Mission to Planet Earth	Participates in global change research.
National Science Foundation: research	Facilitates international scientific cooperation.
National Science Foundation: U.S. polar research	Studies polar regions, which have a major influence on world weather and climate and are considered as likely bellwethers of global climate change. Participates in international cooperative efforts among nations with Arctic regions, or with Antarctic interests.
Nuclear Regulatory Commission	Renders services to foreign governments and international organizations; participates in development and implementation of the Nuclear Safety Convention; and reviews licenses to export nuclear materials. Some costs reimbursed.
Securities and Exchange Commission	Coordinates with international counterparts to discuss securities developments, development and implementation of cooperation agreements concerning securities, and provision of technical assistance for the development of foreign securities markets. Supervises and regulates securities markets to ensure fairness and competition and meet changing international conditions.
Small Business Administration	Encourages small business exports and improves access to capital for trade finance.
Smithsonian Institution	Supports U.S. overseas research centers.





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